2

SECTION – 2
Budget Overview

APPROVED AS AMENDED BUDGET OVERVIEW

The FY2012/13 Operating and Capital Improvement Program (CIP) Budgets were approved by the City Council on June 12, 2012. The Approved Budget totals $1.059 billion from all funding sources and supports 4,002.99 authorized full-time equivalents (FTE) positions. The General Fund totals $368.2 million and 2,749.24 authorized FTE and reflects an ongoing reduction in expenditures from the FY2011/12 Amended Budget of approximately $15.7 million, including the elimination of 42.70 FTE positions. The following charts summarize the changes to the FY2012/13 Proposed Budget released on May 1, 2012.

FY2012/13 Appropriation/Augmentation Summary

Department/ Designation	Fund(s)	Revenue/ Offset Adjustment	Expenditure Adjustment	Net Change / Savings	Funded FTE Change	Description
Negotiated Employee Group Restorations						
Various	Various	$ -	$ -	$ -	28.00	Restore SCXEA proposed reductions and reduce labor budgets to reflect employee payment of the employee's share of retirement contribution.
Fleet and Park Planning and Development Services (PPDS) Restructuring						
Various	General	$ -	$ (3,656,110)	$(3,656,110)	-	Reduce fleet replacement budgets *(Account 474230)* to reflect a change from cash purchasing to a pilot debt-financing program for all General Fund operations excluding Public Works.
Citywide and Community Support	General	$ -	$ 500,000	$ 500,000	-	Establish a debt service budget for the pilot Fleet debt-financing program.
Parks and Recreation	General	$ -	$ 800,000	$ 800,000	(4.00)	Restructure PPDS to reduce the overhead costs associated with project delivery.
Miscellaneous Changes						
General Services	Fleet	$ -	$ -	$ -	-	Eliminate1.0 FTE Integrated Waste Planning Superintendent and add 1.0 FTE Program Specialist in the Fleet Fund.
Community Development	General	$ 305,800	$ 428,800	$ 123,000	1.00	Transfer the City's weed abatement program from the Fire Department to the Community Development Department and add 1.0 FTE Code Enforcement Officer.
Fire Department	General	$ (225,000)	$ (348,000)	$ (123,000)	-	Transfer the City's weed abatement program from the Fire Department to the Community Development Department.
General Fund Revenues	General	$ 200,000	$ 75,000	$ (125,000)	-	Increase General Fund miscellaneous revenues by $200,000 and increase Administrative Contingency by $75,000 for expenses related to continuing labor negotiations.
General Services	General	$ -	$ 110,900	$ 110,900	1.00	Restore 1.0 FTE HVAC Systems Mechanic.
Parks and Recreation	General	$ 25,000	$ 150,000	$ 125,000	2.65	Restore Access Leisure program in the amount of $150k that includes labor $110k and service and supplies $40k.
Parks and Recreation	General	$ -	$ 100,000	$ 100,000	-	Establish funding for the Winter Shelter motel/hotel voucher program from savings identified through the Fleet Restructuring proposal.
	Total Change[1]:	**$ 305,800**	**$ (1,839,410)**	**$(2,145,210)**	**28.65**	The identified savings as a result of the Fleet Restructuring proposal will be added to the General Fund Administrative Contingency for expenses related to continuing labor negotiations.

[1]Totals reflect the changes from the Proposed Budget Document

New Multi-Year Projects (CIP, EFP, and MYOP[1])

Project Number	Project Name	Description / Scope
I14120700	28th St. Landfill Mitigation Project	Establish a MYOP to fund the replacement of lost habitat values resulting from tree removal at the 28th Street Landfill including the planting of native oak and cottonwood trees, and other vegetation; and implement site maintenance and monitoring standards consistent with sound habitat restoration practices.
I14130100	Low-Income Rate Assistance Program	Establish a low income rate assistance program to help offset 7/1/12 Water and Wastewater rate increases from the budgeted revenues associated with the rate increases.

[1] CIP - Capital Improvement Program/Project, EFP = Externally Funded Project, and MYOP = Multi-Year Operating Project

CIP Amendments (adjustments identified below will be included in the Approved 2012-2017 CIP)

Project Number	Project Name	Fund	Fund #	Revenue	Expenditure	Net Change	Funding Details
V15710000	Parking Facilities Development Program	Parking	6004	$ -	$ -	$ -	Defund the programmed $8 million from FY2013/14 through FY2016/17.
Various	Water Capital Improvement Projects	Water	6005	$ -	$ -	$ -	Reduce the FY2014/15 CIP by $8.2 million and eliminate the FY2015/16 and FY2016/17 CIP programming in the Water Fund by $144.1 million.
Various	Wastewater Capital Improvement Projects	Wastewater	6006	$ -	$ -	$ -	Eliminate the FY2015/16 and FY2016/17 CIP programming in the Wastewater Fund by $47 million.
Various	Storm Drainage Capital Improvement Projects	Storm Drainage	6011	$ -	$ -	$ -	Reduce the FY2014/15 CIP by $7.9 million and eliminate FY2015/16 and FY2016/17 CIP programming by $32.3 million in the Storm Drainage Fund.
			Total	**$ -**	**$ -**	**$ -**	

MYOP Amendments (adjustments identified below will be included on Schedule 9 of the Approved Budget)

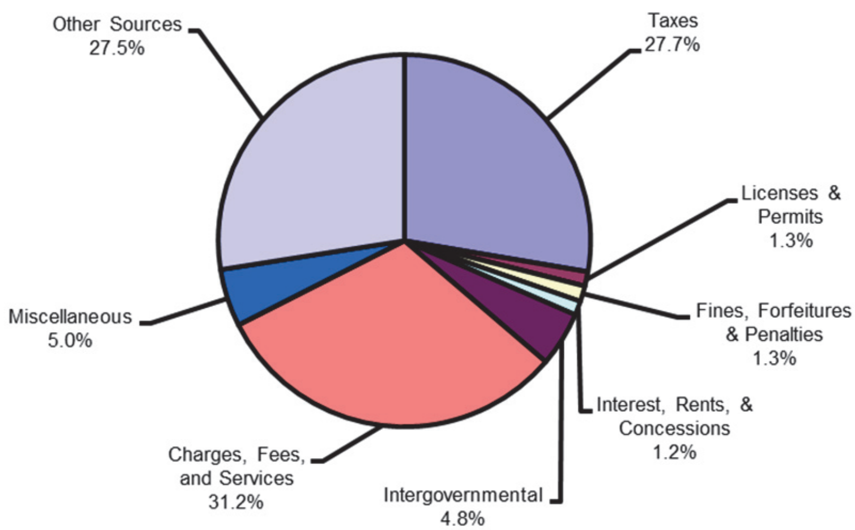
Project Number	Project Name	Fund	Fund #	Revenue	Expenditure	Net Change	Funding Details
I14120200	Solid Waste Outreach	Solid Waste Grant	6207	$ 270,000	$ 270,000	$ -	Solid Waste Public Education and Outreach program, funding from CalRecycle (State).
I14130100	Low-Income Rate Assistance Program	General	1001	$ -	$ 1,130,700	$ 1,130,700	Establish a low income rate assistance program to help offset 7/1/12 Water and Wastewater rate increases from the budgeted revenues associated with the rate increases.
			Total	**$ 270,000**	**$ 1,400,700**	**$ 1,130,700**	

FY2012/13 Successor Agency Administrative Budget

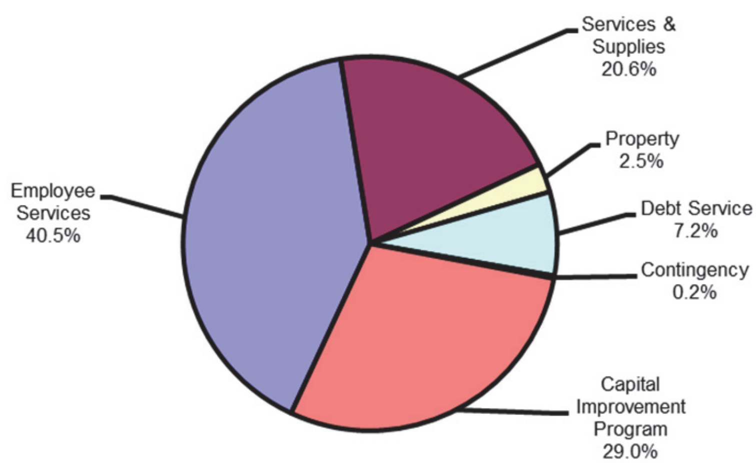
Department/ Designation	Fund(s)	Expenditure Adjustment	Reimbursements	Net Change / Savings	Funded FTE Change	Description
City Attorney	General Fund (1001)	$ 303,004	$ (303,004)	$ -	1.00	Addition of a Deputy City Attorney II (1.0 FTE) and $125,000 for professional services associated with the Successor Agency.
City Clerk	General Fund (1001)	$ -	$ (33,344)	$ (33,344)	-	Establish a reimbursement for work associated with the Successor Agency.
City Manager	General Fund (1001)	$ -	$ (14,275)	$ (14,275)	-	Establish a reimbursement for work associated with the Successor Agency.
City Treasurer	General Fund (1001)	$ -	$ (78,817)	$ (78,817)	-	Establish a reimbursement for work associated with the Successor Agency.
Economic Development	General Fund (1001)	$ -	$ (227,219)	$ (227,219)	-	Establish a reimbursement for work associated with the Successor Agency.
Finance	General Fund (1001)	$ 411,699	$ (464,918)	$ (53,219)	2.00	Addition of a Senior Accountant Auditor (1.0 FTE), Principal Accountant (1.0 FTE), and $40,000 for professional services to manage the funds and reporting responsibilities associated with the Successor Agency.
General Services	General Fund (1001)	$ -	$ (78,424)	$ (78,424)	-	Establish a reimbursement for work associated with the Successor Agency.
Successor Agency	various	$ -	$ 1,200,000	$ 1,200,000	-	Establish a reimbursement for work associated with the Successor Agency.
Economic Development	General Fund (1001)	$ -	$ (100,000)	$ (100,000)	-	Establish a reimbursement for Successor Agency project management.
Successor Agency	various	$ 485,297	$ 100,000	$ 585,297	-	Establish a Successor Agency budget to address unknown expenditures or contingency in the event that the administrative funds are less than estimated for the newly established Successor Agency oversight responsibilities and reimbursements related to project management.
Total Change:		**$ 1,200,000**	$ -	**$ 1,200,000**	**3.00**	

Total Approved as Amended City Budget: $1.06 Billion

Revenue

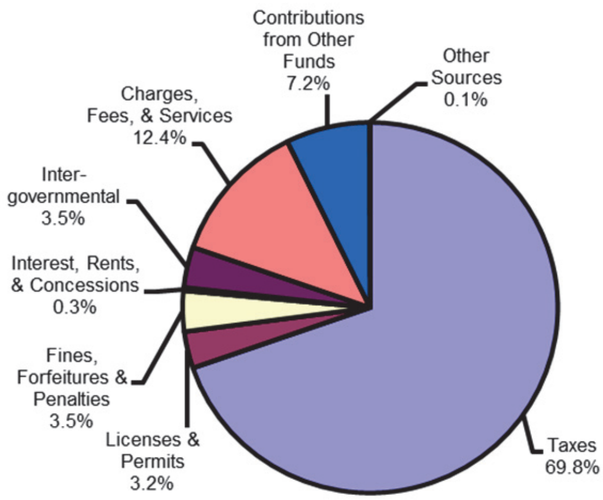


Expenditures

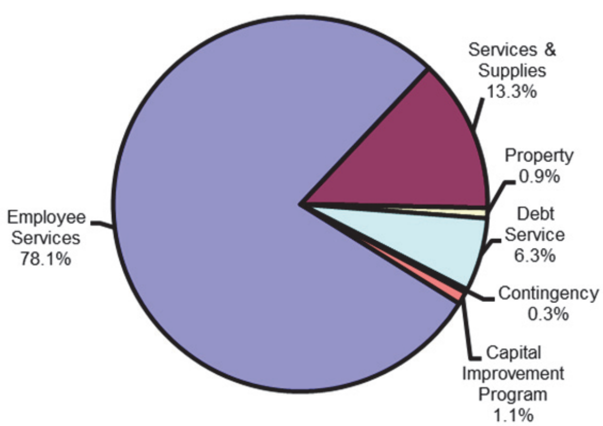


Total Approved as Amended General Fund Budget: $368.2 Million

Revenue



Expenditures



PROPOSED BUDGET OVERVIEW
(As written on May 1, 2012)

INTRODUCTION

Local governments across the nation continue to face increasingly difficult policy and program choices in response to declining economic conditions and growing budget constraints. The persistent economic decline has resulted in budget balancing strategies that would never have been considered prior to the downturn as the relatively easy decisions have already been made and implemented.

For the City of Sacramento, these include across-the-board budget cuts, employee layoffs and temporary furloughs, vacant position eliminations, fee increases, use of reserve funds, maintenance and vehicle replacement deferrals, and program and service reductions. The "low hanging fruit" has already been picked, and unfortunately, these steps have proven to be insufficient to address the long-term economic decline.

Based on recent trends, we do not see any indication that revenues will grow at past rates, cutbacks will not be restored in the near-term, and personnel costs – the largest expense in the City's budget – will need to continue to shrink in order to balance the budget. As such, the City must continue to evaluate not only how to deliver services and meet citizen needs, but also which programs and services the City can afford to deliver.

The reality is that our financial position is still a long way from structural balance, and the reductions included in this proposed budget address only the FY2012/13 budget challenges. We will have more difficult decisions to make in FY2013/14 as the City is faced with ongoing revenue challenges, and rising personnel costs including likely increases to employee retirement costs due to lower investment earning assumptions adopted by CalPERS.

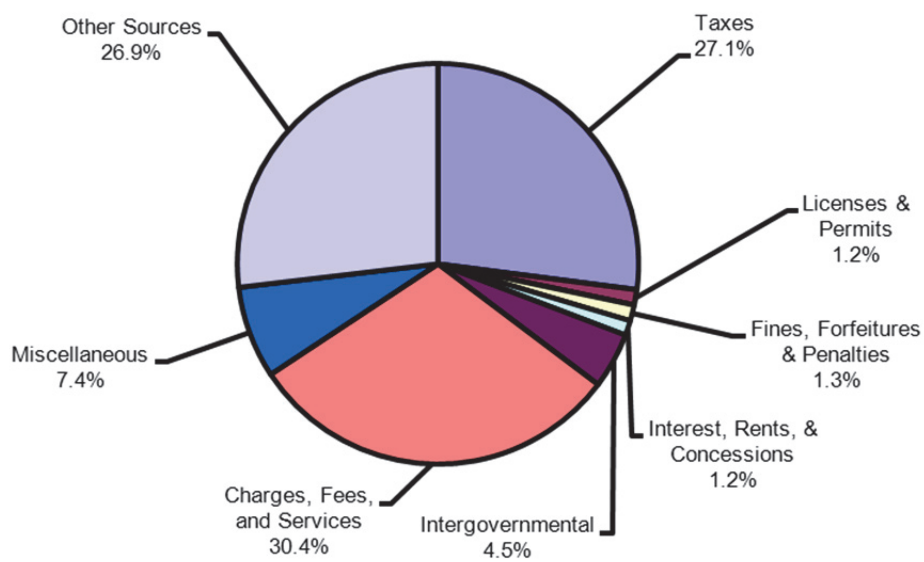
Given the lack of flexibility to reduce the cost of employee services, the City has no choice but to reduce the overall number of employees. To address the structural challenges before the City the budget includes the elimination of 166.75 Full-Time Equivalent (FTE) positions (*not including FTE changes related to grants and restructuring*), resulting in approximately $18 million in on going labor savings to the City. While reducing staff is clearly not the preferred method for reducing costs, the City has a very limited ability to reduce the cost of labor absent the cooperation of the City's employee groups.

The total budget proposed for FY2012/13 is $1.06 billion from all funding sources and supports 3,791.54 FTE positions. This includes $365 million for General Fund operations and capital projects, and $690.5 million for operations and capital projects for the City's Enterprise Funds and other fund activities. The budget as proposed does not include the use of the Economic Uncertainty Reserve (EUR).

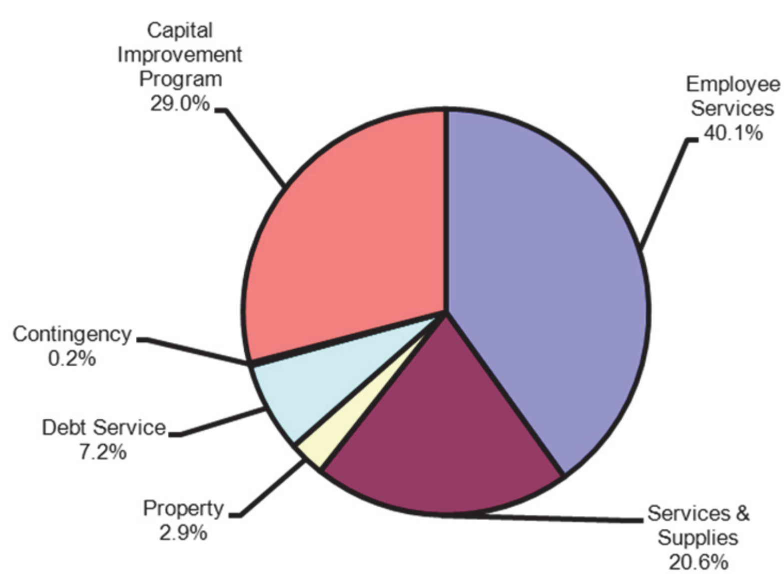
The following charts provide a summary of the FY2012/13 Proposed Budget revenue and expenditures:

Total Proposed City Budget: $1.06 Billion

Revenue



Expenditures



THE GENERAL FUND

As the Sacramento region continues to struggle to emerge from the severe national recession, City General Fund expenditures are forecast to exceed projected revenues for the sixth year in a row. Despite significant expenditure reductions in prior years, including the elimination of over 1,200 positions, department consolidations, and renegotiated labor agreements, the City faces a projected General Fund budget gap of $15.7 million for FY2012/13, and a cumulative two-year gap of $22.6 million through FY2013/14.

The projected gap is the result of both expenditure increases and the continued decline in property tax revenue, the City's largest discretionary revenue source. In addition, there has been minimal growth in other major tax revenues used to support General Fund programs and services. The chart below outlines the major drivers of the two-year General Fund budget deficit:

2-Year Budget Challenge
April 2012
($ in millions)

Changes	FY2012/13	FY2013/14	Total
Contract, wage and benefit costs	11.5	5.9	**17.4**
Retention of Police/Fire Grant Positions	1.8	3.4	**5.2**
Realignment of Grant Offsets/Revenues[1]	5.7	-	**5.7**
Service and Supply Growth	2.3	1.6	**3.9**
Utility Increases due to Proposition 218	0.3	-	**0.3**
Capital Improvement Projects[2]	0.5	0.7	**1.2**
	$ 22.1	**$ 11.6**	**$ 33.7**
Realignment of Grant Offsets/Revenues[1]	(5.7)	-	**(5.7)**
Revenue Growth	(0.7)	(4.7)	**(5.4)**
Deficit	**$ 15.7**	**$ 6.9**	**$22.6**
PERS Investment Return Change (-.25%)[3]	**-**	**4.5**	**4.5**
	$ 15.7	**$ 11.4**	**$27.1**

[1] The Police Department eliminated the use of multi-year operating projects (MYOPs) for contracted police services. The costs and revenues associated with these services will be managed in the operating budget in FY2012/13. This change reduces reimbursements, effectively a cost to the General Fund, and increases revenues in the General Fund to offset those costs.

[2] Deferred Maintenance, Americans with Disabilities Act Program and Fire Apparatus funding.

[3] The CalPERS Board reduced the investment earnings rate assumptions in March 2012 by 0.25% which will result in an estimated $3-6 million increase in retirement contributions.

The City's efforts to close the gap between revenues and expenditures have been challenged by the following factors:

- Major General Fund tax revenues continue to be affected by the economic conditions created by the Great Recession. Property taxes continue to decline, offsetting anticipated growth in sales tax receipts.
- Increasing labor costs reflect current binding labor contracts and required pension contributions to the California Public Employees' Retirement System (CalPERS) and the Sacramento City Employees Retirement System (SCERS). An additional cost of $3-6 million is anticipated in FY2013/14 as a result of the CalPERS Board's decision to lower the investment earnings assumptions by 0.25%.
- Costs to implement the Proposition 218 settlement (the City's General Fund must pay the City's enterprise funds for the full cost of solid waste, storm drainage, wastewater, and water services provided).
- Increased costs for utilities for the facilities and services provided by the Department of Parks and Recreation can no longer be absorbed by the department.
- Funding for the Capital Improvement Program (CIP) reflects the necessary replacement of essential public safety equipment including ambulances, fire trucks, defibrillators, and fire station generators. Also included is funding for deferred maintenance of City assets.

The projected gap equates to a 7.1% reduction in discretionary costs in the General Fund. The FY2012/13 Proposed Budget closes the budget gap and continues a multi-year effort to right-size the organization in order to achieve a sustainable budget.

The Proposed Budget does not reflect any changes resulting from State and/or County budget actions. Further budget adjustments may be necessary depending on the outcome of those budget processes.

Budget Balancing

The General Fund budget funds the delivery of most common programs and services to the community. Because the primary function of the City is to provide services, the largest portion of the budget is tied to the cost of our employees. Currently, 81.6% of the net General Fund budget is dedicated to funding employee services. Aside from the outright elimination of funded positions and employee layoffs, the City has a very limited ability to reduce the cost of labor absent the cooperation of the City's employee groups.

In addition, there are several areas of expense that Council does not have discretion to reduce, including debt service, payments for taxes and services to the County of Sacramento, and contributions to CalPERS and SCERS. These "required'' expenditures effectively limit the discretionary portion of the budget.

Given these constraints, the Proposed Budget addresses the $15.7 million gap between ongoing revenues and expenditures with the elimination of 143.75 Full Time Equivalent (FTE) positions. While this is clearly not the preferred method for reducing costs, given the lack of flexibility to reduce the cost of employee services, the City has no choice but to employ fewer people.

The following chart provides an overview of the FTE position reductions to the City's General Fund included in the Proposed Budget by department:

Department	Budget Reductions ($16 Million)	Reorganizations, Grant & Other Changes	FY2012/13 Proposed Reductions
Mayor/Council	-	(3.00)	(3.00)
City Attorney	(2.00)	-	(2.00)
City Clerk	-	-	-
City Manager	(1.00)	(3.00)	(4.00)
City Treasurer	-	-	-
Citywide & Community Support	-	19.00	19.00
Community Development	(9.00)	(2.00)	(11.00)
Convention, Culture & Leisure	(2.00)	(1.00)	(3.00)
Economic Development	(1.00)	(3.00)	(4.00)
Finance	(3.00)	1.00	(2.00)
Fire	(36.50)	(28.00)	(64.50)
General Services	(6.00)	2.00	(4.00)
Human Resources	(1.00)	-	(1.00)
Information Technology	(2.00)	-	(2.00)
Parks & Recreation	(7.00)	(8.85)	(15.85)
Police[1]	(54.00)	(65.00)	(119.00)
Public Works (*formerly Transportation*)	(19.25)	4.00	(15.25)
Grand Total	**(143.75)**	**(87.85)**	**(231.60)**

Staffing in the departments has also been affected by reorganizations, the elimination of grant funded positions and movement of positions (and associated funding/reimbursements) from other funds to the General Fund. Included in these changes are:

- <u>Citywide and Community Support (+19.0 FTE)</u>: The City provides administrative and financial support to various local and regional programs. These operations were previously included in the City Manager's Office, Community Development, and Utilities.

- <u>Fire Department (-28.0 FTE)</u>: The Council accepted the Staffing for Adequate Fire and Emergency Response (SAFER) grant on June 7, 2011 (Resolution 2011-332) which provided funding for 27.0 firefighters. As a result of the proposed firefighter reductions the City is no longer eligible to receive funding from this grant pursuant to the no layoff provision stipulated in the grant requirements. An additional position related to FY2011/12 labor concessions is also being eliminated.

- Parks and Recreation Department (-8.85 FTE): Reduced fee revenue and sponsorships, as well as the depletion of recreation revenue fund balance, necessitates downsizing primarily in Access Leisure.
- Police Department (-60.0 FTE): The Police Department receives funding through the COPS Hiring Recovery Program (CHRP) and the COPS Hiring Program (CHP). These grants require the demonstration of sworn officer reductions in order to be able to request the maintenance of grant funding from the grantor. Upon the adoption of the budget and demonstration that reductions in sworn officer positions are due to citywide budget reductions, the positions will be added back to the Police Department budget.
- Police Department (-5.0 FTE): The Police Department is eliminating positions previously funded by Regional Transit (RT) as it is no longer contracting with the City to provide these services.
- Reorganizations/Efficiencies: As part of the City's restructuring effort, positions were moved from Utilities to Public Works, a position was moved from Economic Development to Public Works, a position was moved from the City Manager's Office to Finance to oversee Citywide and Community Support contracts and billings, and a position was eliminated in Community Development as a result of the transfer of the illegal dumping program to the Solid Waste Division.
- Mayor/Council: Unfunded FTE for the Independent Budget Analyst are proposed to be eliminated.

The following chart provides an overview of the FTE position reductions to the City's General Fund included in the Proposed Budget by bargaining unit:

Bargaining Unit	Change in FTE
Auto, Marine and Specialty Painters, Local 1176	(1.00)
International Association of Machinists & Aerospace Workers	(0.50)
Stationary Engineers, Local 39	(38.25)
Unrepresented[1]	(6.85)
Sacramento - Sierra Building and Construction Trades Council	(1.00)
Sacramento Firefighters, Local 522	(62.00)
Sacramento Police Officers Association	(107.00)
Sacramento City Exempt Employees Association (SCXEA)	(14.00)
Western Council of Engineers	(1.00)
Grand Total	**(231.60)**

[1]Mayor/Council, Mayor Council Support, Executive Management and Non-Career.

Detailed information on the proposed reductions and the associated positions and effects on service levels is included in each department's section of the Proposed Budget.

The Proposed Budget does not include any estimated employee compensation changes resulting from labor concessions.

The Five-Year Forecast

The five-year forecast for the General Fund is an important fiscal planning tool. The forecast is based on the current budget and projects future expenditures, revenues, and other funding sources over a multi-year period. Under the sustainable budget policy of the City Council, proposed fiscal actions are evaluated in a longer-term, rather than a short-term context.

The five-year forecast is based on a set of point-in-time assumptions. The projected expenditure growth is realistic, particularly through the term of the current labor contracts. Revenues are derived from economically sensitive sources, and the five-year revenue forecasts are subject to the same uncertainty and downside risk surrounding national economic forecasts. It is important to note that the City's major tax revenues, property and sales taxes, trail economic trends. Even while national and state-wide economic conditions are improving, Sacramento's tax revenue growth continues to lag.

A March 2012, Brookings Institute study measuring the progress cities have made since the recession found that while revenues haven't been completely stagnant, there has been growth, "…but generally very slow growth in both jobs and economic output." In fact, a number of troubling trends directly affecting local government fiscal conditions continue as a result of the economic downturn:

- Real estate markets continue to struggle and tend to be slow to recover from downturns; projections indicate a very slow recovery of real estate values, impacting future property tax collections, which is likely to extend over the next several years;
- Unemployment and wages are also under pressure and will weigh heavily on sales and property tax revenues;
- Large state government budget shortfalls have been and may continue to be resolved through cuts to local funding or elimination of state jobs; and
- Underfunded pension and health care liabilities will persist as a challenge in years to come.

The overall decline in the real estate market marks a salient reality of substantial reductions in the number and value of both the sale of new homes and the resale of existing homes. This is especially significant as property taxes are the single largest discretionary revenue in the General Fund. Over the last four years, the market value of both residential and commercial properties has declined significantly, reducing the City's property tax revenues from a high of $135.8 million in FY2008/09 to an estimated $114.5 million in FY2012/13, a 15.7% decrease from the peak.

The resulting "structural budget deficit" is inevitable as revenue growth is insufficient to keep pace with compounding expenditure growth caused by increasing service demands, escalating personnel costs, and the ongoing operations and maintenance of aging infrastructure. The City's challenge for FY2012/13 is to effectively implement a multi-year plan to close the gap between revenues and expenses in the General Fund, achieving a fiscally sustainable budget.

The following graph depicts the ongoing gap in the General Fund, and the growth over the five-year forecast period:

$ in 000s	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Total Revenues/Resources	366,055	370,789	380,356	392,548	409,490
Total Expenditures	365,033	376,727	385,394	392,928	400,905
Other Sources and (Uses)	(981)	(1,131)	(1,131)	(1,131)	(1,131)
Annual Operating Surplus/(Deficit)	41	(7,069)	(6,169)	(1,511)	7,454
Cumulative Operating Results	**41**	**(7,028)**	**(13,197)**	**(14,707)**	**(7,254)**

It is important to note that the forecast does not include the growth in the 11% general tax on the utility funds resulting from the rate increase approved by Council in March. Rather, these funds have been set aside until Council has the opportunity to consider the implementation of a life-line program to offset the rate increases for low-income customers that could be funded with these resources. In FY2012/13, the increase in these revenues is expected to be $1.1 million.

Budget sustainability and the fiscal capacity to address longer-term fiscal issues requires that annual base operating cost increases be held to a level below annual revenue growth. The City continues to face significant challenges in returning to a long-term structurally balanced General Fund budget. The fiscal reality is that given the lack of significant revenue growth in the forecast, current expenditure commitments and anticipated growth are unsustainable. The forecast reflects a cumulative deficit of $14.7 million through FY2015/16 if permanent ongoing reductions are not implemented. It is important to remember that this forecast does not include the CalPERS rate increase due to the 0.25% reduction in investment rate of return.

As a result, the City will need to continue to reduce expenditures and/or implement long-term revenue growth strategies in order to account for anticipated expenditure growth not supported by revenues.

<u>Tools and Opportunities</u>

<u>Restructuring</u> – Over the past few years, as government has struggled to meet demand for services with ever declining resources, the consolidation of operations, often in specialized service areas, has been a tool to maximize efficiency and reduce costs by flattening the organization.

On August 23, 2011, staff presented a strategic framework to address and resolve the City's long-range structural deficit. A component of the framework included seeking cost-savings and efficiencies via a review of service delivery models, span of control metrics, and processes in five specific focus areas. The resulting "restructuring" project was aided by Management Partners, Inc., a professional management consulting firm, to identify best practices, evaluate other cities' experiences with similar challenges, conduct analyses, and provide recommendations.

The project resulted in the identification of nearly 20 recommendations, many of which have already been implemented, while those requiring staff and resource moves between departments are included in the FY2012/13 Proposed Budget. These include the following:

- Changing the Department of Transportation to the Department of Public Works (DPW) to reflect the consolidation/coordination of specific services previously provided by the Department of Utilities (DOU) into DPW as outlined below:

    - Coordination of Department of Public Works (DPW) Paving Repair with Department of Utilities (DOU) Trench Cuts and Service Alert (USA) markings functions to eliminate duplication.
    - Consolidation of DOU and DPW construction inspections services to increase efficiency and reduce duplication.
    - Consolidation of DPW's Urban Forestry services with Street Maintenance Division Markings to flatten the management structure and increase organizational efficiency.

- Citywide Purchasing Contract Consolidation to maximize volume discounts and reduce time spent processing multiple vendor agreements.

- Elimination of DOU and DPW supervision and management at the Community Development Permit Center and establishing a reporting relationship with staff reporting to the Community Development Director to improve coordination and service delivery.

- Changing the name of "Non-Department" to Citywide and Community Support and the organizational structure and budget to reflect an effort to more accurately reflect City operations and expenses in department budgets. Additional details on the changes are included in the Citywide and Community Support section.

In addition, staff continues to work on the details of two additional opportunities for restructuring that will be considered during the FY2012/13 budget hearings. These include the following:

- Streamline Parks and Recreation Capital Project Design in order to bring indirect overhead rates in line with those of other City departments and ensure that, to the greatest extent possible, funds are utilized for actual project costs.

- Implementing a 3-5 year pilot lease or lease purchase vehicle replacement program, allowing the City to pay the capital costs of vehicles as they are used rather than before they are used and accelerate vehicle replacement.

Finally, there are some strategies requiring additional work that may be considered as part of the FY2013/14 budget process. These include the following:

- Managed competition for park maintenance services.
- Consolidation of detention basin maintenance.
- Fire Department operational efficiencies.

The City must continue to find new ways of delivering programs and services and continue efforts to identify and implement operational efficiencies, including alternative service delivery through contracted services, as well as opportunities to implement best practices to minimize risk and increase efficiency. Additional opportunities will be considered as strategies are identified.

Priority Based Budgeting (PBB) – After four consecutive years of reductions, the City continues efforts to achieve budget stability and sustainability. Understanding the correlation between Council's priorities and the allocation of resources will provide an additional tool to consider in the budget development process.

The Program Oriented Development (POD) process, initially developed during the FY2010/11 budget process, was introduced as a method of strategic analysis to identify and inventory the City's programs and services and establish a starting point of hierarchy as across-the-board reductions were no longer an effective means of expenditure reductions.

While POD was used as a method to evaluate services included in the current budget as well as the prior fiscal year, staff is currently working with the non-profit Center for Priority Based Budgeting to implement a model using the POD inventory that will demonstrate the relationship between current allocations of City resources and Council's priorities.

Today we know how much the City currently spends on a particular program or service; however, we don't know how those dollars line up relative to desired outcomes. PBB recasts the budget into programs and their relationship to desired outcomes instead of line items in a budget. PBB results can be utilized to consider funding decisions relative to specific programs and services based on the extent to which that program/service meets priorities. It can also be used to reconsider funding for programs that may be well intended but do not significantly support community priority outcomes.

To the extent that the City is able to correlate resource allocation with Council's priorities, there may be an opportunity to consider the reallocation or reduction of allocated resources in future budgets. This type of consideration is essential in order to ensure that the Proposed Budget reflects the Council's and community's priorities. The initial results of the PBB analysis will not be completed until mid to late May 2012. As these results are refined and evaluated, they will be a resource for consideration in the development of the FY2013/14 budget.

Other Options – The City continues to study the viability of several revenue options to provide needed resources to maintain or restore service levels, including modernizing the business operations tax, exploration of a citywide parcel or sales tax, and expanding the City's community facilities assessment districts. Staff also continues to aggressively pursue all available federal, state, and local funding opportunities to offset operating and capital costs. As additional information becomes available, staff will report to the City Council.

Use of Reserves

The current balance in the Economic Uncertainty Reserve (EUR) is $20.7 million, approximately 5.6 percent of estimated FY2012/13 General Fund revenues. The Council's stated goal is to gradually achieve a 10 percent reserve balance. This reserve is maintained for the purpose of bridging a gap between projected revenue and expenditures during periods of significant revenue declines and/or expenditure growth and to ensure the City has adequate resources in case of an emergency or unforeseen events.

The City used a substantial portion of one-time funding during the recession, $79 million over the past five years, to provide the time necessary to implement long-term reduction strategies and to mitigate even greater reductions in services. This use of one-time resources to bridge the gap between revenues and expenditures deferred, but did not eliminate, the need to reduce costs. As a result, to the extent one-time funding is utilized, the City will need to continue to reduce expenditures or implement long-term revenue growth strategies in order to backfill the use of one-time resources. The FY2012/13 Proposed Budget does not include the use of the EUR.

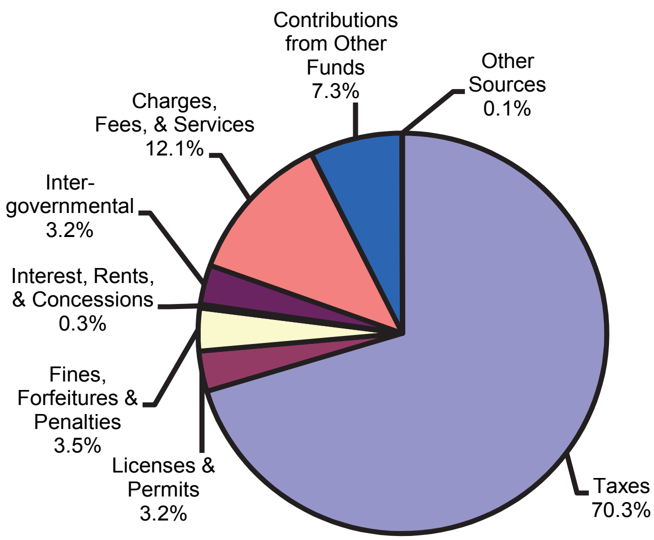
General Fund – Summary

The City must close the gap between revenues and expenditures in the General Fund to achieve a fiscally sustainable budget. The deficit will persist unless permanent corrective actions are taken to change the City's revenue and cost structures. Closing the gap will require difficult decisions regarding program priorities and levels of service, and will require discipline to ensure that the solutions implemented address the City's long-term financial challenges.

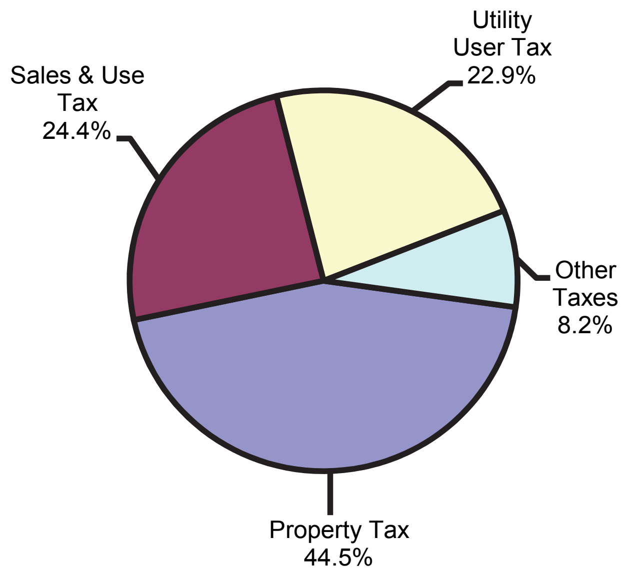
The following charts provide a summary of the FY2012/13 Proposed General Fund revenue and expenditure budgets:

Total Proposed General Fund Budget
$365 Million

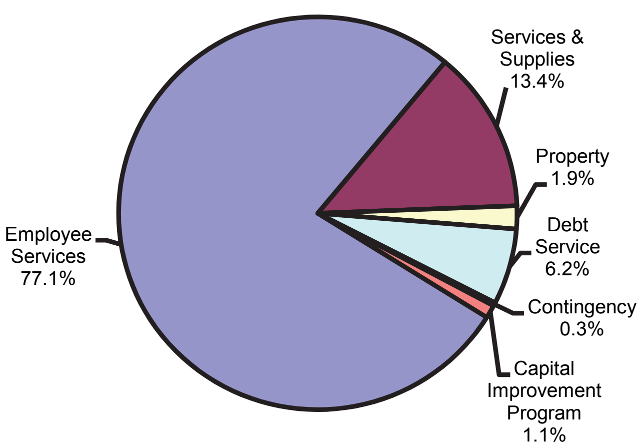
Revenues
$366 Million



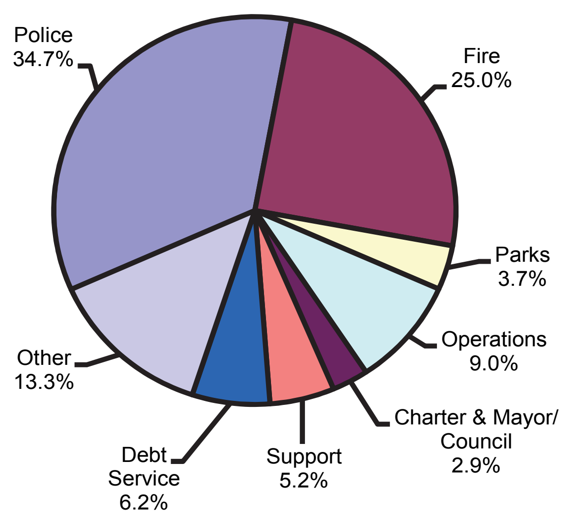
Tax Revenue
$257.4 Million



Expenditures
$365 Million



Expenditures by Program
$365 Million



THE ENTERPRISE FUNDS

The City's Enterprise Funds are also challenged as a result of the overall economic decline. In the Utilities Enterprise Funds, forecasted revenues, without consideration of Council-approved rate increases, fall short of the resources required to address operational and capital costs necessary to deliver services. The amount of bad debt write-off has stabilized; however, this may increase if unemployment in the region grows or the number of foreclosures increases.

Revenues for the Community Center and Marina Funds have also been affected by lower than anticipated demand and as a result, expenditure adjustments have been included to align expenses with revenues. In the case of the Marina Fund, an amended agreement with the State Department of Boating and Waterways will be necessary to adjust current debt service obligations in order to right-size the fund to reflect the dramatic decrease in revenues.

To address escalating costs and revenue shortfalls in these funds, the Proposed Budget includes the reduction of 23.0 FTE resulting in approximately $2 million in savings to the Enterprise Funds. Additionally, staffing in these funds has been reduced by an additional 23.0 FTE due to the elimination of commercial refuse and recycling services, the transfer of the Sacramento Area Flood Control Authority (SAFCA) staff to the General Fund, and the addition of staff for the utility services marking program and to comply with the California Sportfishing Protection Alliance litigation. The following chart provides an overview of the FTE position changes included in the Proposed Budget by department:

Department	Budget Reductions ($2 Million)	Reorganizations, Grant & Other Changes	FY2012/13 Proposed Reductions
Convention, Culture & Leisure	(2.00)	-	(2.00)
General Services	(5.00)	(6.00)	(11.00)
Public Works	(1.50)	-	(1.50)
Utilities	(14.50)	(17.00)	(31.50)
Grand Total	**(23.00)**	**(23.00)**	**(46.00)**

The following chart provides an overview of the FTE position changes to the City's Enterprise Funds included in the Proposed Budget by bargaining unit:

Bargaining Unit	Change in FTE
Plumbers & Pipefitters, Local 447	3.00
Stationary Engineers Local 39	(29.50)
Sacramento - Sierra Building and Construction Trades Council	(1.00)
Sacramento City Exempt Employees Association (SCXEA)	(14.50)
Unrepresented[1]	(2.00)
Western Council of Engineers	(2.00)
Grand Total	**(46.00)**

[1]Executive Management and Non-Career.

The Proposed Budget for the Enterprise Funds includes expenditure adjustments to address the items discussed above, as well as adjustments to reflect changing revenue trends and the incorporation of the Council approved rate increases in the Utilities Funds. The chart below summarizes the status of these funds:

Fund	Status
Community Center	Revenues are forecasted to grow by two percent; this is primarily due to TOT growth. Measures to reduce expenditures continue to remain in order to maintain a positive fund balance and to prepare for the Theater Renovation project.
Marina	Based on the significant impact from the economic downturn to the boating industry, the five-year forecast assumes a continued decrease in occupancy rates, falling to an annual average of 45% in FY2012/13. There is no proposed berth fee increase in an effort to stabilize rates as the economy recovers.
Parking	The fund is balanced over the five-year period based on amending the 2012-2017 CIP during the budget process.
Solid Waste	The five-year forecast anticipated cost increases, implements the Solid Waste Business Plan recommendations, meets regulatory requirements, and holds rates flat for three years.
Storm Drainage	No rate increase is included in the five-year forecast. As such, the budget continues to rely on the use of reserves. Per Proposition 218, a voter-approved ballot measure is required to increase rates and will be necessary in the near future to sustain operational, capital, and regulatory requirements as fund reserves are nearly depleted.
Wastewater, Water	On March 27, 2012, Council adopted increases to the wastewater and water rates for FY2012/13 through FY2014/15 in order to continue critical infrastructure repair and rehabilitation as well as to ensure compliance with state and federal regulations.

In some cases, out-years of the five-year forecasts indicate that the fund balance will be negative as expenses will exceed available resources. Absent changes, increased revenues, or decreased expenditures in future forecasts, additional operating or capital reductions will be required in order to bring the fund into balance. Performance of these funds will be monitored and recommendations to maintain the fiscal sustainability of each fund will be made during future budget processes as necessary. Operational descriptions and updates of each of the City's Enterprise Funds are shown on the following pages, including a five-year forecast for each fund.

Community Center Fund (Fund 6010)

$ in 000s	Proposed FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Beginning Fund Balance	373	1,084	1,663	1,572	2,694
Revenue	23,450	24,029	24,621	25,325	26,131
Expenditures	22,489	22,950	23,212	22,803	23,221
Other Source/(Use)	(250)	(500)	(1,500)	(1,400)	(1,400)
ENDING FUND BALANCE	1,084	1,663	1,572	2,694	4,204

Marina Fund (Fund 6009)

$ in 000s	Proposed FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Beginning Fund Balance	23	(926)	(1,654)	(2,428)	(3,205)
Revenue	1,416	1,577	1,607	1,658	1,753
Expenditures	2,365	2,305	2,381	2,435	2,505
ENDING FUND BALANCE	(926)	(1,654)	(2,428)	(3,205)	(3,957)

Parking Fund (Fund 6004)

$ in 000s	Proposed FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Beginning Fund Balance	4,724	2,402	2,087	1,832	1,683
Revenue	17,804	17,975	18,291	18,614	18,942
Expenditures	20,126	18,290	18,546	18,763	19,012
ENDING FUND BALANCE	2,402	2,087	1,832	1,683	1,613

Solid Waste Fund (Fund 6007)

$ in 000s	Proposed FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Beginning Fund Balance	13,176	12,687	11,752	8,869	6,932
Revenue	60,251	59,606	59,628	63,183	66,950
Expenditures	60,740	60,541	62,511	65,120	68,252
ENDING FUND BALANCE	12,687	11,752	8,869	6,932	5,630

Storm Drainage Fund (Fund 6011)

$ in 000s	Proposed FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Beginning Fund Balance	14,510	11,762	9,254	6,095	2,853
Revenue	35,435	35,435	35,435	35,435	35,435
Expenditures	38,184	37,943	38,594	38,677	40,258
ENDING FUND BALANCE	11,762	9,254	6,095	2,853	(1,970)

Wastewater Fund (Fund 6006)

$ in 000s	Proposed FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Beginning Fund Balance	8,604	9,319	10,497	10,234	8,399
Revenue	24,353	27,786	31,481	31,481	31,481
Expenditures	35,672	44,803	35,147	33,316	35,201
Other Source/(Use)	12,033	18,195	3,404	-	-
ENDING FUND BALANCE	9,319	10,497	10,235	8,399	4,679

Water Fund (Fund 6005)

$ in 000s	Proposed FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17
Beginning Fund Balance	16,921	27,652	26,773	33,338	38,650
Revenue	85,797	93,618	102,149	102,149	102,149
Expenditures	245,779	104,769	112,864	96,837	99,676
Other Source/(Use)	170,713	10,272	17,280	-	-
ENDING FUND BALANCE	27,652	26,773	33,338	38,650	41,123

Community Center Fund (Fund 6010)

The Community Center Fund funds the operation, debt service, and capital improvement program for the Sacramento Convention Center Complex, which includes the Convention Center, Memorial Auditorium, and Community Center Theater. The Convention, Culture & Leisure Department's goals include maintaining successful financial performance of the Community Center Fund as an enterprise fund, optimizing facility utilization through aggressive marketing, exceeding industry standards for customer service and facility maintenance, stimulating hotel market demand to generate Transient Occupancy Tax (TOT) revenues, and offering a premier venue to contribute to the economic vitality of the Downtown and Sacramento region.

The main sources of revenue for the Community Center Fund are TOT and fees paid by users of the facilities. In FY2008/09 and FY2009/10, the TOT revenue suffered a two-year decline, the worst decline in the history of the TOT. FY2010/11 TOT rebounded with an increase of eight percent from FY2009/10. FY2011/12 is projected to have a three percent increase on projected current year actuals from FY2010/11, with an additional three percent increase in FY2012/13. In FY2012/13, the Community Center Fund is being reduced by 2.0 FTE for $133,000 in employee services, in addition to three other positions being left vacant for savings of $217,000.

In FY2010/11, user fees declined by four percent from FY2009/10; however, FY2011/12 proceeds are rebounding with a two percent increase over FY2010/11. FY2012/13 is forecasted to remain at current levels.

In 1997, the City Council approved the use of up to $12 million from the Risk Fund, if needed, to offset any year-end deficit. Total borrowing was just over $7.5 million. Repayment of the inter-fund loan began in FY2005/06 and will continue in FY2012/13 with a payment of $250,000. Repayment of the loan will continue through the next fifteen years. Through FY2011/12, $3.45 million has been repaid.

A Theater Renovation Reserve has been added to the five-year forecast for the funds associated with the Community Center Theater renovation. The Theater was built in 1974 and has not had a major renovation since opening. In 2007, Council approved pursuing a project to address the ADA accessibility, critical needs of the building's mechanical and electrical systems, and patron and client required improvements. In 2008, Council approved a facility fee of $3.00 per ticket to fund approximately a third of the renovation project. A preliminary building design with an estimate of $50 million cost has been developed. The schematic design phase of the project, nearly $2 million, is complete. The construction document phase, however, is time sensitive and needs to be closely tied to securing financing. The balance of the project cost requires financing of $48 million to begin construction. The debt service payments for this project are estimated to begin in FY2015/16 and will be supported by the Community Center Fund including user fees, TOT, and Facility Fee proceeds.

Community Center Fund (6010)
Revenue and Expenditure Five-Year Forecast
Dollars in Thousands

	2012/13 Base Budget	2012/13 Proposed Augmentations/ Reductions	2012/13 Proposed Budget	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
REVENUES							
Charges, Fees, and/or Services	6,351		6,351	6,605	6,869	7,144	7,358
Interest	425		425	450	525	525	615
Transient Occupancy Tax	16,024		16,024	16,224	16,427	16,756	17,258
Other (Theater Facility Fee)	650		650	750	800	900	900
TOTAL REVENUES	**23,450**		**23,450**	**24,029**	**24,621**	**25,325**	**26,131**
EXPENDITURES							
Operating – Employee Services	6,966	(133)	6,833	6,901	6,970	7,040	7,110
Operating – Other	7,548	(12)	7,536	7,291	7,436	7,646	7,879
Debt Service	7,970		7,970	7,970	7,970	9,870	11,770
Capital Improvements	1,150		1,150	1,800	1,800	1,000	1,000
Other Fund Uses (Savings)	(991)	(9)	(1,000)	(1,012)	(964)	(853)	(738)
TOTAL EXPENDITURES	**22,643**	**(154)**	**22,489**	**22,950**	**23,212**	**24,703**	**27,021**
CURRENT SURPLUS/(DEFICIT)	**807**		**961**	**1,079**	**1,409**	**622**	(890)
Other Fund Sources (Fund Payback)					2,000		
Other Fund Uses (Risk Loan, Operational Reserve)	(250)		(250)	(500)	(1,500)	(500)	(500)
Beginning Fund Balance	373		373	1,084	1,663	3,572	3,694
ENDING FUND BALANCE	**930**		**1,084**	**1,663**	**3,572**	**3,694**	**2,304**

Marina Fund (Fund 6009)

The Sacramento Marina is located on the Sacramento River at Miller Park. The Marina is a full-service, seven-day-a-week operation that includes 475 berths, a fuel dock, security gates, and parking. The expectation is that revenues from berth rentals and fuel sales offset costs of operation, debt service, and capital improvements.

The Sacramento Marina completed a $10.5 million renovation in FY2008/09 that included replacement of the 45-year old deteriorating South Basin docks and provided covered berths for nearly all slips. The project was primarily financed through a low interest loan from the State Department of Boating and Waterways (DBW). The debt payments for the South Basin project are included in the FY2012/13 Proposed Budget as required by the current debt service schedule. However, current revenue projections forecast insufficient funds to cover the debt payments. The City is working with DBW to restructure this loan with a prior DBW loan in order to provide a payment schedule that will meet DBW's needs and reduce expenditures to fit within forecasted revenues.

The five-year expense and revenue forecast reflects the economic downturn on the boating industry. Marina occupancy is currently 39%, with an average occupancy for the fiscal year of 52%. This forecast assumes occupancy will average 45% in FY2012/13, 47% in FY2013/14, 50% in FY2014/15, 56% in FY2015/16, and 60% in FY2016/17. Operating expenses have been reduced to the minimal level necessary to support the program and reflect efficiencies and service level reductions.

Berth fees reflect no increase for the term of the forecast with future value increases to be determined based on economic and market conditions. As part of the debt restructuring, the City's goal is to stabilize rates for the next two years as the economy recovers, at which time, rate increases would resume. Council has previously approved a three percent rate increase for FY2012/13 consistent with the terms of the current DBW loan agreement. Staff is working with DBW to amend the loan agreement, which will result in eliminating the need for 6% across the board rate increases as approved by Council on June 15, 2010 (Resolution 2010-341). Staff will bring a proposal to Council in May that will include a modified rate increase schedule.

Marina Fund (Fund 6009)
Revenue and Expenditure Five-Year Forecast
Dollars in Thousands

	FY2012/13 Base Budget	FY2012/13 Proposed Augmentations/ Reductions	FY2012/13 Proposed Budget	FY2013/14 Estimate	FY2014/15 Estimate	FY2015/16 Estimate	FY2016/17 Estimate
REVENUES							
Charges, Fees, and/or Services[1]	1,198		1,198	1,354	1,379	1,418	1,481
Interest	18		18	18	18	20	22
Other (Fuel)	200		200	205	210	220	250
TOTAL REVENUES	**1,416**	**-**	**1,416**	**1,577**	**1,607**	**1,658**	**1,753**
EXPENDITURES							
Operating - Employee Services	444		444	446	451	455	460
Operating - Other	632		632	569	590	625	675
Debt Service[1]	1,239		1,239	1,240	1,240	1,240	1,240
Capital Improvements	50		50	50	100	115	130
TOTAL EXPENDITURES	**2,365**		**2,365**	**2,305**	**2,381**	**2,435**	**2,505**
CURRENT SURPLUS/(DEFICIT)	**(949)**	**-**	**(949)**	**(728)**	**(774)**	**(777)**	**(752)**
Other Fund Uses							
Beginning Fund Balance	23		23	(926)	(1,654)	(2,428)	(3,205)
ENDING FUND BALANCE	**(926)**		**(926)**	**(1,654)**	**(2,428)**	**(3,205)**	**(3,957)**

[1]In process of renegotiating payment schedule w ith DBW.

Parking Fund (Fund 6004)

The City of Sacramento operates nine parking garages and nine surface parking lots for a total of over 10,000 parking spaces in the downtown core. These include surface lots managed for the Crocker Art Museum and Inland American Real Estate Trust. The Parking Services Division also manages over 65,000 square feet of retail space within the various City parking structures.

Parking fee revenues in the FY2012/13 Base Budget are projected to decrease less than one percent compared to the current budget. Revenue and operating expenses are expected to increase one percent FY2013/14, then two percent annually thereafter. Rental income is based on current and anticipated leases with no rate increases included in this forecast.

Parking Fund (Fund 6004)
Revenue and Expenditure Five-Year Forecast
Dollars in Thousands

	FY2012/13 Base Budget	FY2012/13 Proposed Augmentations/ Reductions	FY2012/13 Proposed Budget	FY2013/14 Estimate	FY2014/15 Estimate	FY2015/16 Estimate	FY2016/17 Estimate
REVENUES							
Parking Fees	16,084		16,084	16,244	16,549	16,860	17,177
Interest (Operating Funds)	600		600	600	600	600	600
Real Property Rental	1,120		1,120	1,131	1,142	1,154	1,165
TOTAL REVENUES	**17,804**	**-**	**17,804**	**17,975**	**18,291**	**18,614**	**18,942**
EXPENDITURES							
Employee Services	4,578		4,578	4,672	4,812	4,956	5,105
Other Services & Supplies	5,014		5,014	5,079	5,147	5,216	5,287
Operating Transfer Out/In	1,849		1,849	1,857	1,888	1,919	1,951
Debt Service	4,636		4,636	4,634	4,651	4,624	4,621
Other Uses/CIP Labor Offset[1]	4,048		4,048	2,048	2,048	2,048	2,048
TOTAL EXPENDITURES	**20,126**	**-**	**20,126**	**18,290**	**18,546**	**18,763**	**19,012**
CURRENT SURPLUS/(DEFICIT)	**(2,322)**	**-**	**(2,322)**	**(315)**	**(255)**	**(149)**	**(70)**
Other Fund Uses (Use of Bonds)							
Beginning Fund Balance	4,724		4,724	2,402	2,087	1,832	1,683
ENDING FUND BALANCE	**2,402**		**2,402**	**2,087**	**1,832**	**1,683**	**1,613**

[1]The FY2013/14 - FY2016/17 CIP budget does not tie to the 2012 - 2017 Proposed CIP. The CIP will be amended during the budget process.

UTILITIES FUNDS - OVERVIEW

The following major factors and assumptions have been used in developing the Utilities five-year budget forecast:

- Major cost drivers such as fuel, electricity, and chemicals increase each year based on historical trends and past performance of the various indices used to project cost growth.
- Labor costs have been adjusted to comply with current contracts, staffing changes, and labor cost savings, where appropriate.
- Use of bond financing will be pursued in the Water and Wastewater Funds to finance the water treatment rehabilitation facility projects as well as other projects, which will address aging infrastructure and comply with regulatory requirements.
- Additional costs are included in future years in order to continue to meet regulatory requirements, such as the Residential Water Meter Program, comply with consent decrees, and invest in aging infrastructure to attain a 100-year replacement schedule.

The five-year budget forecast includes Council adopted rate increases for FY2012/13 through FY2014/15 in both the Water and Wastewater Funds. These rate adjustments will address operational requirements, aging infrastructure, compliance with regulatory mandates, and maintain the fiscal stability of these funds. The rates were adopted as part of a Utilities' Water and Wastewater Program (Program), a long-term strategy of investing in the City's water and wastewater capital and regulatory programs. The Program included a three-year specific capital and finance plan using a mix of bond and cash financing allowing the City to finally begin to invest in its infrastructure and meet regulatory requirements while smoothing rate increases in order to avoid rate spikes for utility customers.

In developing the Program, the Department of Utilities (DOU) has and will continue to work closely with the City Manager's Office and the Internal City Auditor to implement audit recommendations in order to ensure the DOU operates as efficiently and effectively as possible. In FY2010/11, Public Financial Management and their team of sub-consultants, under the direction of the Internal City Auditor, conducted the "Department of Utilities Operational Efficiency and Cost Savings Audit." DOU has formed an Audit Response team that reports to the Department's leadership team, and DOU continues to implement and monitor various components of the audit as well as pursue other strategies to increase efficiencies. Consistent with the City Auditor's work plan for FY2011/12, a utilities billing operations audit is also being conducted.

Utilities Rate Advisory Commission

The City Council formed the Utilities Rate Advisory Commission (Commission) in FY2008/09 to provide advice and recommendations to the Mayor and City Council on the City's utility service rates. The Commission is made up of seven community members, some of whom have expertise in the utilities field. Five of the seven members have expertise or experience in key areas, such as accounting, auditing, finance, law, engineering, science, environmental, construction management, solid waste collection and disposal, water supply and distribution, sewer collection and treatment, or drainage collection. The Commission is also charged with holding a public hearing required by Proposition 218 when the City proposes to impose or increase utility service rates.

The three-year water and wastewater rate plans were brought forward to the Utilities Rate Advisory Commission for review. The Commission held the public hearing on the proposed rates and subsequently recommended the three-year rate increases that were adopted by Council for FY2012/13 through FY2014/15. In addition to the rate recommendations, the Council adopted other Commission recommendations related to oversight, monitoring, and the use of revenues generated from the rate increases. As a result, the Commission will play a role in ensuring that funds intended to support capital replacement and improvement, be appropriated and spent for those purposes only.

In addition, DOU will follow an accountability plan that includes: (1) reporting with an off-agenda written report to the Commission and the City Council on a semi-annual basis the status of obtaining and securing credit, bond issuance, any new revenue secured through grants or other funding sources, and capital improvement project status; (2) reporting to the Commission at a public meeting on an annual basis with a summary of the past year so that the Commission can evaluate DOU's performance; and (3) that DOU provides information on its website pertaining to the CIP Budget approved by the City Council, the status of projects within that budget, and information pertaining to the specific projects.

Solid Waste Fund (Fund 6007)

The Solid Waste Fund is responsible for the activities of collecting garbage, recyclables and garden refuse, sweeping streets, removing illegal dumping, post-closure monitoring of landfills, and waste reduction. Issues facing the Solid Waste Fund include the following:

- Implementing the Council-approved Solid Waste Business Plan recommendations including the termination of commercial garbage and recycling collection and implementation of revised residential service programs.
- Keeping solid waste utility rates flat over the next three fiscal years despite significant operating cost increases.
- Funding the illegal dumping clean-up program through non-garbage rate revenue sources.
- Meeting state-mandated diversion goals.

Costs for items vital to providing solid waste services and complying with regulatory mandates continue to rise. The most significant cost increases are in-region disposal fees, fleet fuel, post-closure activities of landfills, and container replacements. While costs in many areas are rising, Solid Waste operations have realized significant savings by rerouting its operations and modifying schedules to reduce labor, overtime, and fleet costs. Additionally, Solid Waste will save over $3 million annually in vehicle maintenance with the replacement of 53 old and inefficient side loading refuse trucks.

The following chart provides a five-year budget forecast for the Solid Waste Fund to address anticipated cost increases, implement Business Plan recommendations, and meet regulatory requirements. It includes the following assumptions:

- Eliminate commercial collection in FY2012/13 and implement residential service programs in FY2013/14 with no overall change in solid waste rates.
- Provide resources for the replacement of aging refuse trucks through budgeted replacement dollars and debt service (with payments covered by vehicle maintenance cost savings).
- Fund the ongoing post-closure costs associated with City landfills and establish resources to mitigate the loss of trees at the 28th Street Landfill.
- Provide funding for the replacement of worn-out containers.

Solid Waste Fund (Fund 6007)
Revenue and Expenditure Five-Year Forecast
Dollars in Thousands

	FY2012/13 Base Budget	FY2012/13 Proposed Augmentations/ Reductions	FY2012/13 Proposed Budget	FY2013/14 Estimate	FY2014/15 Estimate	FY2015/16 Estimate	FY2016/17 Estimate
REVENUES							
Charges, Fees, and/or Services	63,618	(3,477)	60,141	58,858	58,858	62,390	66,133
Interest							
Other	110		110	748	770	793	817
TOTAL REVENUES	**63,728**	**(3,477)**	**60,251**	**59,606**	**59,628**	**63,183**	**66,950**
EXPENDITURES							
Operating - Employee Services	14,743	(19)	14,724	14,421	14,421	15,142	15,899
Operating - Other	38,867	(1,022)	37,845	38,476	40,478	42,622	44,927
Debt Service	4,426		4,426	4,426	4,118	3,786	3,780
Multi-Year Operating Projects	2,934		2,934	2,081	2,031	2,081	2,131
Capital Improvements	811		811	1,137	1,463	1,489	1,515
Other Fund Uses							
TOTAL EXPENDITURES	**61,781**	**(1,041)**	**60,740**	**60,541**	**62,511**	**65,120**	**68,252**
CURRENT SURPLUS/(DEFICIT)	**1,947**	**(2,436)**	**(489)**	**(935)**	**(2,883)**	**(1,937)**	**(1,302)**
Beginning Fund Balance	13,176		13,176	12,687	11,752	8,869	6,932
ENDING FUND BALANCE	**15,123**		**12,687**	**11,752**	**8,869**	**6,932**	**5,630**

Storm Drainage Fund (Fund 6011)

Revenue generated for the purpose of providing storm drainage services is deposited in the Storm Drainage Fund. Revenues are derived primarily from customer service charges and interest earnings. Storm Drainage Fund revenues cover the cost of storm drainage operations for pumping stations, wet weather treatment and storage, collection system maintenance, related engineering services, flood plain management, customer service and billing, education programs, water quality monitoring and other regulatory compliance issues, and a capital improvement program. Fund expenditures are divided among operating costs, debt service, and capital improvements and multiyear operating projects. Challenges facing the Storm Drainage Fund include the following:

- Declining reserves, as existing revenue is not sufficient to cover current operating and capital expenses.
- Upgrading drainage service to areas outside of the City's combined sewer system (CSS) to meet citywide standards.
- Improving drainage system reliability and contributing to the combined wastewater system repair, rehabilitation, and improvements.
- Maintaining State and federal regulatory compliance, i.e., National Pollution Discharge Elimination System (NPDES), and supporting regional flood control efforts.

The following chart provides a five-year budget, which includes the following assumptions:

- No rate increases with continued use of fund reserves.
  - Expenditures continue to exceed revenues and the fund is projected to be in a deficit position in the near-term.
  - Per Proposition 218, a voter approved ballot measure is required to increase storm drainage rates.
  - DOU intends to recommend moving forward with the ballot measure process in future years.
- Annual operating expenditures such as fuel, chemical, and electricity costs are expected to increase.
- No rate increases in recent years; as such, the capital program has been severely curtailed creating a significant backlog of repair and rehabilitation projects. Use of bond financing would help provide the resources necessary to address the aging infrastructure while smoothing rate increases and is likely to be recommended in the future.
- Increased capital improvement funding will be necessary in the out-years to fund critical storm drain infrastructure and CSS projects.

Storm Drainage Fund (Fund 6011)
Revenue and Expenditure Five-Year Forecast
Dollars in Thousands

	FY2012/13 Base Budget	FY2012/13 Proposed Augmentations/ Reductions	FY2012/13 Proposed Budget	FY2013/14 Estimate	FY2014/15 Estimate	FY2015/16 Estimate	FY2016/17 Estimate
REVENUES							
Charges, Fees, and/or Services[1]	34,901		34,901	34,901	34,901	34,901	34,901
Interest	422		422	422	422	422	422
Other (Intergovernmental)	4,170	(4,057)	113	113	113	113	113
TOTAL REVENUES	**39,493**	**(4,057)**	**35,435**	**35,435**	**35,435**	**35,435**	**35,435**
EXPENDITURES							
Operating - Employee Services	23,807	(3,389)	20,418	20,418	20,418	21,235	22,084
Operating - Other	8,591	1,369	9,960	10,458	10,981	11,530	12,107
Debt Service	3,641		3,641	3,673	3,671	3,693	3,693
Multi-Year Operating Projects	1,891	(82)	1,809	1,938	2,069	2,219	2,373
Capital Improvements[2]	3,848	(1,493)	2,355	1,455	1,455	-	-
TOTAL EXPENDITURES	**41,778**	**(3,594)**	**38,184**	**37,943**	**38,594**	**38,677**	**40,258**
CURRENT SURPLUS/(DEFICIT)	**(2,285)**	**(463)**	**(2,748)**	**(2,507)**	**(3,159)**	**(3,242)**	**(4,823)**
Other Fund Uses							
Beginning Fund Balance	14,510		14,510	11,762	9,254	6,095	2,853
ENDING FUND BALANCE	**12,225**		**11,762**	**9,254**	**6,095**	**2,853**	**(1,970)**

[1]Voter approval is required for rate adjustments to the Storm Drainage Fund.

[2]The FY2015/16 - FY2016/17 CIP budget does not tie to the 2012 - 2017 Proposed CIP. The CIP will be amended in the budget process.

Wastewater Fund (Fund 6006)

Revenue generated to provide wastewater collection services is deposited in the Wastewater Fund. Revenues are derived from customer service fees, recovery of Sacramento Regional County Sanitation District (SRCSD) related operation and maintenance costs paid for by the fund, interest earnings, and connection charges. Wastewater Fund revenues cover the cost of wastewater collection and maintenance, storage and treatment of wet weather combined sewage, installation of new services, operation of sanitary pumping stations, related engineering services, customer service and billing, and the monitoring of discharge into the wastewater collection system. Fund expenditures are generally divided among operating costs, debt service, capital improvement and multi-year operating projects.

The wastewater system is a "contained system" in that very little expansion, other than in-fill projects, is possible without upsizing the system and increasing its capacity. The City-operated wastewater collection system consists of a combined sewer system and a separated sewer system that combined serve approximately 60% of the City, primarily the northeastern, central and southern sections of the City. The Sacramento Area Sanitation District (SASD) is the wastewater collection system provider for the other areas of the City. While the City is responsible for limited treatment of its combined wastewater, it partners with SRCSD to treat the majority of the City's wastewater. The City provides SRCSD with billing and collection services for properties within the service area in which wastewater collection is provided by the City.

The Wastewater Fund presents challenges due to the system's limited growth potential and the age and nature of the system's infrastructure. On March 27, 2012, Council approved increases to the wastewater rates for FY2012/13 through FY2014/15. Issues facing the Wastewater Fund include the following:

- Compliance with state and federal regulations, including state mandated rehabilitation of the Central City's combined wastewater and storm drainage system. The CSS collects wastewater from homes and businesses as well as storm water and urban runoff.
- Increased costs associated with the California Sportfishing Protection Alliance Consent Decree to ensure minimization of wastewater overflows.
- Continued rehabilitation of the City's separated wastewater service area. A separated wastewater system collects wastewater from homes and businesses and does not collect storm water.
- Incorporating growth of new wastewater services and the increasing costs for repair and reconstruction of the aging system.
- Maintaining the financial strength of the fund for the purpose of raising sufficient capital to finance rehabilitation of the CSS.

The following chart provides a five-year budget forecast for the Wastewater Fund to address anticipated cost increases and meet regulatory requirements, and includes the following assumptions:

- Use of bond financing will be pursued in FY2012/13 to finance CSS improvements and other wastewater repair and rehabilitation projects. The rate adjustments adopted for FY2012/13 through FY2014/15 will allow the City to invest in mandated system improvements as required as well as make progress towards reaching a 100-year replacement schedule for aging pipes.
- Annual operating expenditure increases for fuel, chemical, and electricity costs.

Wastewater Fund (Fund 6006)
Revenue and Expenditure Five-Year Forecast
Dollars in Thousands

	FY2012/13 Base Budget	FY2012/13 Proposed Augmentations/ Reductions	FY2012/13 Proposed Budget	FY2013/14 Estimate	FY2014/15 Estimate	FY2015/16 Estimate	FY2016/17 Estimate
REVENUES							
Charges, Fees, and/or Services[1]	19,788	3,162	22,950	26,119	29,775	29,775	29,775
Interest	392		392	392	392	392	392
Other (Intergovernmental)	1,011		1,011	1,275	1,314	1,314	1,314
TOTAL REVENUES	**21,191**	**3,162**	**24,353**	**27,786**	**31,481**	**31,481**	**31,481**
EXPENDITURES							
Operating - Employee Services	7,516	492	8,008	8,008	8,008	8,328	8,661
Operating - Other	10,944	2,473	13,417	13,921	15,173	15,837	17,366
Debt Service[2]	910		910	910	2,095	3,921	3,921
Multi-Year Operating Projects	275	1,242	1,517	4,045	3,860	5,230	5,253
Capital Improvements[3]	1,775	10,045	11,820	17,919	6,012		
TOTAL EXPENDITURES	**21,421**	**14,251**	**35,672**	**44,803**	**35,147**	**33,316**	**35,201**
CURRENT SURPLUS/(DEFICIT)	**(229)**	**(11,089)**	**(11,318)**	**(17,017)**	**(3,666)**	**(1,835)**	**(3,720)**
Other Fund Uses (Use of Bonds)[2]		12,033	12,033	18,195	3,404		
Beginning Fund Balance	8,604		8,604	9,319	10,497	10,235	8,399
ENDING FUND BALANCE	**8,375**		**9,319**	**10,497**	**10,235**	**8,399**	**4,679**

[1]City Council approved 16%, 15%, and 14% rate increases for FY2012/13, FY2013/14, and FY2014/15 respectively.
[2]The Utilities Department is proposing to issue bonds as part of its financing plan.
[3]The FY2015/16 - FY2016/17 CIP budget does not tie to the 2012 - 2017 Proposed CIP. The CIP will be amended in the budget process.

Water Fund (Fund 6005)

Revenue generated for the purpose of providing water service is deposited in the Water Fund. Revenues are derived from customer fees, interest earnings, development fees, tap sales, and reimbursements from other entities for services provided. Water Fund revenues are structured to cover the costs for water treatment, plant maintenance, water distribution system repair and maintenance, water conservation and education programs, water quality monitoring, related engineering services, customer service and billing, the City's contribution to the City-County Office of Metropolitan Water Planning, and capital improvements. Fund expenditures in the five-year forecast are summarized and reflected as operating costs, debt service, capital improvement costs, and multi-year operating projects.

On March 27, 2012, Council adopted increases to the water rates for FY2012/13 through FY2014/15 to address identified needs. In addition to the approved rates, the Proposed Budget includes a reduction in employee services in order to further mitigate the impact of rising costs in other areas. Key issues for the Water Fund over the next five years include the following:

- Ongoing replacement and maintenance of aging infrastructure to provide safe and reliable drinking water to the community and meet state and federal standards.
- Continued implementation of the Residential Water Meter Installation Program in compliance with the state mandates requiring full meter installation by 2025 and 20% water conservation by the year 2020.
- Maintaining state and federal regulatory compliance.
- Continued implementation of an aggressive water conservation program consistent with the Water Forum Agreement (WFA), integrating actions necessary for providing a regional solution to water shortages, environmental damage, and groundwater contamination.
- Support of regional, long-term water supply planning.
- Development of wholesale and wheeling agreements in support of effective regional water management.
- Meeting future debt service requirements related to the rehabilitation and improvement of intake structures and treatment plants.

The chart below provides a five-year budget forecast for the Water Fund to address anticipated cost increases and meet regulatory requirements. It also includes the following assumptions:

- Capital spending reflects continued implementation of the mandated water meter program, water treatment plant rehabilitation, and ongoing infrastructure repair and rehabilitation.
- Use of bond financing will be pursued in FY2012/13 to finance the water treatment facility rehabilitation projects and other infrastructure projects, and to smooth the rate increases required to implement these projects. While prior rate adjustments have helped address operational costs, the water meter retrofit program and some level of capital replacement, they have not provided sufficient resources to fund major capital projects or adequately fund necessary capital replacement projects. The rate adjustments adopted for FY2012/13 through

FY2014/15 will allow the City to invest in one of its most critical assets, the water treatment plants, as well as make progress towards reaching a 100-year replacement schedule for aging pipes.

- Costs for items that are vital to the collection, purification, and delivery of water, and to meet levels of service, continue to rise at rates exceeding general inflationary costs. The most significant cost increases are for chemicals, electricity, sludge dewatering, and replacement and maintenance of water meters.

Water Fund (Fund 6005)
Revenue and Expenditure Five-Year Forecast
Dollars in Thousands

	FY2012/13 Base Budget	FY2012/13 Proposed Augmentations/ Reductions	FY2012/13 Proposed Budget	FY2013/14 Estimate	FY2014/15 Estimate	FY2015/16 Estimate	FY2016/17 Estimate
REVENUES							
Charges, Fees, and/or Services[1]	77,903	7,117	85,021	92,843	101,374	101,374	101,374
Interest	400		400	400	400	400	400
Other (Intergovernmental)	419	(43)	376	375	375	375	375
TOTAL REVENUES	**78,722**	**7,075**	**85,797**	**93,618**	**102,149**	**102,149**	**102,149**
EXPENDITURES							
Operating - Employee Services	24,176	(497)	23,679	23,679	23,679	24,626	25,611
Operating - Other	28,845	4,226	33,071	33,971	36,100	38,038	39,860
Debt Service[2]	12,394		12,394	13,119	20,679	32,443	32,423
Multi-Year Operating Projects	1,162	484	1,646	1,689	1,740	1,730	1,782
Capital Improvements[3]	12,112	162,877	174,989	32,311	30,666		
TOTAL EXPENDITURES	**78,689**	**167,090**	**245,779**	**104,769**	**112,864**	**96,837**	**99,676**
CURRENT SURPLUS/(DEFICIT)	**34**	**(160,015)**	**(159,982)**	**(11,151)**	**(10,715)**	**5,312**	**2,473**
Other Fund Uses (Use of Bonds)[2]		170,713	170,713	10,272	17,280		
Beginning Fund Balance	16,921		16,921	27,652	26,773	33,338	38,650
ENDING FUND BALANCE	**16,955**		**27,652**	**26,773**	**33,338**	**38,650**	**41,123**

[1] City Council approved 10% rate increases for FY2012/13, FY2014/15, and FY2015/16.

[2] The Utilities Department is proposing to issue bonds as part of its financing plan.

[3] The FY2014/15 - FY2016/17 CIP budget does not tie to the 2012 - 2017 Proposed CIP. The CIP will be amended in the budget process.